

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Continue
Implementation and Administration, and
Consider Further Development, of California
Renewables Portfolio Standard Program.

Rulemaking 15-02-020
(Filed February 26, 2015)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)
ON THE JUNE 22, 2016 LEAST-COST BEST-FIT REFORM STAFF
PAPER AND THE ADMINISTRATIVE LAW JUDGE'S RULING
REQUESTING COMMENT**

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August 9, 2016

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**I.
INTRODUCTION**

San Diego Gas & Electric Company (“SDG&E”) submits these reply comments in response to parties’ opening comments that responded to the *Administrative Law Judge’s Ruling Accepting into the Record Energy Division Staff Paper on Least-Cost Best-Fit Reform for Renewables Portfolio Standard Procurement and Requesting Comment* (“ALJ Ruling”) issued on June 22, 2016. This ALJ Ruling concerns the Least-Cost Best-Fit (“LCBF”) “Energy Division Staff paper on Least-Cost Best-Fit Reform” (“Staff Paper”) to be utilized in the Renewables Portfolio Standard (“RPS”) procurement.

As SDG&E pointed out in its opening comments, as the Commission looks to refine the RPS LCBF methodology, it should do so in light of the integrated resource planning (“IRP”) process it is also developing.¹ The IRP presents an excellent opportunity for the Commission to better integrate planning activities that currently occur in many separate proceedings, including the RPS proceeding. The IRP can and should provide data needed to improve the LCBF methodology being discussed in this proceeding. SDG&E also pointed out that procurement of

¹ SDG&E Opening Comments at 2-3.

renewables may occur in proceedings other than the RPS proceeding. As an example, after completion of the IRP planning process, procurement processes may include specific RPS procurement but may also lead to all-source procurement when renewable options could be directly compared to energy efficiency options (which would reduce RPS needs by reducing sales). SDG&E's recommendation is for the Commission to step away from siloed procurement toward a more integrated approach and to consider how the output from the IRP can be incorporated into the RPS program.

SDG&E's reply comments respond to some of the opening comments filed in response to the ALJ Ruling.²

II. DISCUSSION

A. Time of Delivery Based Contract Payments Do Not Work for Long-Term Fixed Contracts

IEPA states that Time of Delivery ("TOD") based contract payments, if sized appropriately, provide useful market signals to incentivize renewable energy resources to shift the timing of their production.³ While this statement is true, it ignores the reality that in order for this incentivized shift to be effective and provide value for the seller and the buyer, the price signals must accurately reflect current market conditions. The dynamic nature of energy markets results in a constant shift in the relative energy values year-over-year. This constant shift makes forecasting TOD factors that accurately reflect market conditions in 10-30 years impractical. For

² On July 22, 2016 opening comments were filed by SDG&E, Pacific Gas & Electric Company ("PG&E"), Southern California Edison ("SCE"), the Office of Ratepayer Advocates ("ORA"), California Wind Energy Association ("CalWEA"), Independent Energy Producers Association ("IEPA"), California Biomass Energy Alliance ("CBEA"), Center for Energy Efficiency and Renewable Technologies ("CEERT"), Calpine Corporation ("Calpine"), Green Power Institute ("GPI"), TransWest Express, LLC (TransWest), Ormat Technologies ("Ormat"), Bay Area Municipal Transit Group ("BAMx") and L. Jan Reid.

³ IEPA Opening Comments at 9.

this reason it is not useful, from a ratepayer perspective, to tie premium energy payments to TOD factors that will almost certainly be inaccurate for a considerable portion of the contract term. It is inequitable to incent generators with fixed TOD premiums over the course of a long-term contract if those premiums do not provide commensurate value to ratepayers. While using TOD factors to evaluate bids is the best way to value these contracts, it does not make sense to use these same TOD factors as a basis for determining energy payments for long-term fixed price contracts.

B. Published Relative Weighting of Attributes Does Not Better Inform Sellers

IEPA suggests that a relative weighting of attributes be published in the Request for Offer (“RFO”) so as to better inform sellers of the product they should offer.⁴ However, a well written RFO document makes clear the valued and sought qualities in at least a qualitative way. A rigid requirement for every RFO should be resisted. If qualities are ramp rate, net qualifying capacity (“NQC”) value and capacity factor, then no individual weighting need be known: the bid meets the standard or it does not meet the standard, and its offered price and contract conditions (*e.g.*, contract term, amount and capacity factor) allow the buyer to compute an index which captures all these features to allow a ranking for all bids.

A bidder may use creative work to craft a custom product or delivery condition as well as locations(s) that better serves the LCBF goal. It is in the rare case that a load-serving entity needs, using IEPA’s metaphor,⁵ a number 2 pencil. It is more likely that IEPA would need a writing instrument. If a specific product at a specific bus or set of busses with a specific quantity of MW and output profile is required, an RFO can be crafted to capture exactly that product. However, these circumstances are not the norm; instead, the requirements are usually for a

⁴ *Id* at 5-6.

⁵ *Id* at 6.

renewable resource (a category of production defined by public process) that can deliver to the company's CAISO defined default load aggregation point ("DLAP"). Specifics of preferred injection areas and production characteristics are provided if they are known. When specific procurement objectives, in response to a specific regulatory decision are implemented, such specificity is appropriate. However, in many cases the buyer's point is to discover what the market can provide on its own without any search bias that might preclude a beneficial surprise.

As IEPA imagines, there may be ways to procure renewable resources which ameliorate the emerging "duck curve" problem but the bids must be for a sufficient amount in a useful location with adequate ramping rates to work and yet be competitively priced against other such bids (and against the avoided default alternative of an effective load serving entity built fossil resource). Sufficient information on technology performance already exists in the public record and reports of the Commission, California Energy Commission and Western Electricity Coordinating Council to create estimates for the sellers marketing decision-making.

Increased transparency in the form of published winning prices, weighting schemes and other information besides the defining description in the RFO reduces bidding risk but does not reduce the expected cost of supply that ratepayers face. Transparency is completely available to representatives of the public interest, namely, the Commission and thereby serves the public interest. Private interest should only be given an equal position when there is a demonstrated and existing risk of undersupply. No such undersupply is now observed. In summary, by avoiding a proscriptive, formulaic format for auctions IOUs can write RFO documents that allow for a wide range of offered terms and conditions and offered prices corresponding to them.

Respectfully submitted this 9th day of August, 2016.

/s/ Paul A. Szymanski
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AFFIDAVIT

I am an employee of the respondent corporation herein, and am authorized to make this verification on its behalf. The matters stated in the foregoing **REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) ON THE JUNE 22, 2016 LEAST-COST BEST-FIT REFORM STAFF PAPER AND THE ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENT** are true of my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 9th day of August, 2016, at San Diego, California

/s/ *Fernando Valero*

Fernando Valero
Partnerships and Programs Manager
Origination and Portfolio Design Department